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BUREAU OF THE BUDGET
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STATEMENT OF MAURICE H. STANS,
DIRECTOR OF THE BUREAU OF THE BUDGET,
BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE OF
THE HOUSE OF REPRESENTATIVES ON FEDERAL
EMPLOYEE PAY LEGISLATION

Mr. Chairman and Members of the Committee:

We appreciate this opportunity to present to you the Administration position on the Federal pay legislation now under consideration by the Committee.

The Administration finds no justification at this time for the enactment of any legislation which would provide general increases in salary rates under the Classification Act, the Postal Field Service Pay Act, and other statutory pay systems. We therefore strongly oppose H. R. 9883 and any other general pay increase bills pending before this Committee.

We do endorse legislation such as proposed in the Budget Message and transmitted by the Postmaster General to make permanent the temporary $2\frac{1}{2}\%$ increase under the Postal Field Service Pay Act of 1958.

We do favor adopting an orderly, valid and fair approach to statutory career white collar pay fixing in the future. This is the position stated by the President in the 1961 Budget Message.

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In this statement I will make quite plain our opposition to this general pay legislation, and I will also outline the approach to Federal white collar pay fixing which we believe would be equitable and of permanent usefulness.

The reasons for our opposition to a general increase are these:

1. Enactment of these bills would grant general salary increases without regard to the only sound principle of Federal pay fixing, which is reasonable comparability with private enterprise salary rates.
2. Based on information presently available, enactment of these bills would result in grossly excessive salary rates for some grades and possibly inadequate salary rates in other grades.
3. The rates contained in these bills are without sound factual justification. The information necessary for judging the need for adjustments in Federal white collar salary rates will be available in September, when a study authorized by the Congress last year will be completed. Until then the need for any salary increases cannot be appraised.
4. Enactment of these bills would emphasize existing inequities in the Federal white collar salary structure and would set new obstacles to achieving the improvements and

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controls which are essential to carrying out the principle of equal pay for equal work, with pay relationships among grade levels reasonably reflecting differences in duties and responsibilities.

All of this leads up to a major issue. Enactment of these bills would result in an annual additional cost of \$1.6 billion and this is about a 20% average increase in the current \$8.4 billion payroll under these statutory pay systems. The retroactive date of January 1, 1960, provided in these bills would mean a further added cost of about \$800 million in this current fiscal year. Because there is no justification at this time for the salary increases proposed in these bills, their enactment would result in an unwarranted expenditure of Federal funds. That, in the face of the Government's budgetary problems, would be fiscal irresponsibility.

While it may seem that our projected \$4.2 billion surplus in our budget for 1961 could absorb such costs, this can be no ground for excessive Federal pay scales. A budget surplus such as is projected in the 1961 budget is not a certainty, but a forecast which is based on recommendations by the President which require acceptance by the Congress. This estimated surplus of \$4.2 billion is contingent on the extension of corporate and excise tax rates, the enactment of legislation to increase postal revenues and the aviation fuel tax, and the realization of the receipts and expenditures estimates shown in the budget. Therefore, there are many variables which could affect the outcome in 1961. But,

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regardless of that, Federal pay issues should be dealt with on their merits and not on the availability of a surplus out of which they might be financed.

Furthermore, it would be unfortunate if action to increase Federal salary rates without factual justification had the result of encouraging private industry wage and salary increases, which in turn could increase inflationary pressures.

Administration Objections

Our first objection is that these bills follow no sound principle for determining whether a Federal white collar pay adjustment is needed, or how much. And the reason is that no such principle has been recognized. The Congress, the employee organizations, and the executive branch over the years have considered a variety of factors which, although in some degree pertinent, are not definite measuring sticks. For example, witnesses have argued over the cost of living, productivity, general wage trends, industrial wage averages, living standards and family budgets, movements in general economic indicators, and difficulties in recruiting and retaining staff. All have been taken into account in fixing pay in private enterprise, but these factors do not provide a satisfactory means, either selectively or in combination, of measuring and adjusting Federal white collar pay. The only sound course is to adopt the principle of setting Federal employee pay at rates comparable with those paid by private employers.

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Our second objection is that a general pay raise now would result in excessive rates for some grades. The private enterprise salary data now available from the current BLS Community Survey in the first 30 cities to be completed indicate that the current Federal rates for some grades exceed rates which will be reported to be paid in private enterprise when the survey is completed. While other grades may show lower Federal pay than private industry, it is clear that a general pay raise now, whether it is 23% or 10% or 2%, cannot be justified. We urge that decision be postponed until all the facts are in.

Our third objection is that these bills would increase Federal salary rates before the facts are known as to private salary levels. The Bureau of Labor Statistics is now conducting a survey which when complete will report private salary levels for 60 metropolitan areas. Having set this survey in motion the Government should not ignore its existence.

Our fourth objection is that unwarranted salary increases that place any salary rates out of proper structural relationship with other salary rates will exaggerate inequities and increase unnecessarily the cost of rationalizing the structure. I propose to point out later how this can be obviated.

Implications

When we speak of excessive rates we are not quibbling over insignificant amounts. We are considering here the pay of about 1,500,000 employees under these statutory pay systems. Any mistake in an individual

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pay rate for that number is multiplied astronomically. In a small organization it may not make much difference whether the boss pays the actual present \$3,780 or the proposed \$4,185 a year to the one stenographer in the outer office. In the Federal Government that stenographer is in grade GS-3, and she is one of 173,521 employees in that grade. The \$405 a year difference becomes, in a general Federal pay raise, an annual difference of \$70 million, paid year after year.

The 1958 pay raise set some rates which it now appears were in excess of private enterprise rates. Now on the basis of available BLS data, it appears that the bills under consideration would increase that overpayment in the Classification Act, with strong probability that similar excesses would occur in the other statutory pay systems. If true, this is wasteful government that cannot be defended, and the Committee, I hope, will want to wait for the facts to become available, in order to avoid that possibility.

If we raise Federal white collar pay levels now on the basis of inadequate information which can make the results merely guesses, and if the September BLS report shows that such increases result in unnecessary or improper expenditures, then we will all have much to regret.

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Arguments Advanced for Increases Now

The cost of living is one of several factors which witnesses have discussed. But in recent years private pay has often risen faster than has the Consumer Price Index, and so have many Federal white collar salary rates. Since 1945 the Consumer Price Index has increased about 63% but the entrance rates for GS-2 and GS-5 have increased by about 107% and 92% respectively. If these rates had been linked to that Index the purchasing power of the salary dollar would have been fully maintained with only a 63% increase, or with a salary of about \$2,563 for GS-2 instead of the actual present salary of \$3,255. Moreover, the Consumer Price Index has risen only 1.⁵% since the 1958 pay increase was approved, and this is much less than the 23% increase proposed for certain grades in the bills under consideration.

Increased productivity is another factor in private pay fixing. It is often included on the basis of assumptions as to average increases in product-per-man-hour in the economy as a whole. Again, this is not the sole factor in fixing pay in private enterprise. Moreover, it cannot be assumed that all gains in productivity do go or should go to increase wages, as has been suggested in these hearings. It is clear that some portions of productivity gains may also go to increase returns on capital and to decrease prices, or to hold down prices which would otherwise have increased. Bureau of Labor Statistics indexes of real compensation and real product-per-man-hour in the private economy show that in some periods productivity has increased faster than real compensation, and in other periods real compensation has increased faster. To apply productivity

indexes directly as a factor in determining Federal salary levels therefore would have no meaning as a practical measure. It would scarcely be justifiable, as has been previously suggested in these hearings, to add together all changes in the Consumer Price Index and all changes in a national productivity index to derive a percent change to be applied to Federal salary rates.

Assumptions about desirable living standards and family budgets have been advanced as deserving a place in Federal pay fixing. Yet there is not only the very obvious difficulty in reaching agreement among reasonable people on what constitutes a desirable living standard, but there is a much more fundamental difficulty. For any attempt to use the living standard concept as the basic pay-fixing measure has the result of measuring pay in terms of someone's decisions about human needs and aspirations rather than in terms of the value of the services rendered. Measured in these terms, for example, the head of a family might be paid more than an unmarried employee, regardless of the kind of work performed. The impossibility of applying the living standard concept directly in Federal pay fixing is illustrated in the widely quoted statement made to this Committee that a letter carrier's salary does not qualify him for the maximum FHA insured mortgage on a \$15,000 house. The fact is that all persons at this salary level, including carriers, do not qualify, salary-wise. Furthermore, about 52% of FHA loans for "new" houses, and about 70% of FHA loans for "existing" houses are for amounts below the maximum allowable loan on a \$15,000 house. The carrier is not alone. It is clearly inappropriate for a Federal salary rate to be fixed as the result of a determination by a

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Federal authority as to the value of a house an employee should be able to buy, or to provide a living standard higher than that enjoyed by a non-Government employee performing similar work. In the American economy salaries and wages are determined by decisions about what the employee's services are worth in value to the economy, not by decisions as to what economic needs he would like to be able to satisfy.

Industrial wage trends are frequently offered as a reason for salary increases for Government employees. These cannot be used directly to measure the adequacy of Federal salary rates, because such data measure changes from one period of time to another, and do not establish a proper level of wages at a given time. A report on wage trends may show, for example, that carpenters' pay has increased by 10% since a specified base period while plumbers' pay has increased only by 5% since the same base period. However, a mere comparison of these two percentage changes discloses nothing as to the proper relative position now of the actual dollar rates for the two jobs. Such a time comparison alone does not show, for example, whether the plumbers may actually have started from a higher base and may still be ahead of the carpenters. It may be a fact that average manufacturing hourly earnings, for example, have increased by about 55% since 1950, while the entrance rate or in-hiring rate for GS-4 has increased by about 31%. But it is also a fact that since early 1945 the entrance rate in GS-3 increased by 116%, while average hourly rates in manufacturing increased only 106%, which only illustrates that this kind of "rate of change" data can be selected to seem to prove a point. While wage trend data are useful for some purposes, they are

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useless for measuring comparability of Federal salary rates with private enterprise pay rates.

Industrial wage averages cannot be used broadly to measure Federal salary rates, as has already been brought out in these hearings, since these industry-wide averages, such as for manufacturing or transportation as a whole, or for some individual industry such as machinery or textiles, are based on a mixture of levels of responsibility, from unskilled trainees to highly skilled foremen. Such an average of many levels does not state the specific rate for a particular level which is required for comparison with a specific grade level in the Federal service.

It is for these reasons, for example, that average wage increases reported for recent private wage settlements, such as the recent steel settlement, which has been mentioned in these hearings, are not suitable for determining Federal white collar salary rates. Even if the steel settlement were some sort of guide, we should note that it provides no base wage increase at all until next December and then only an average seven-cent increase which, even adding the indirect costs, will bring about only an average 3% increase.

All the factors which I have mentioned, and many more, are pertinent and do directly influence private industry salary decisions. Yet none of them can feasibly be applied directly, either selectively or in combination, as the measure of adequate Federal salary rates.

Nevertheless, it is the Administration position that all these relevant private salary-fixing factors should be reflected in Federal salary rates,

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to the extent that they affect private industry rates for similar positions and responsibility.

By following this principle we automatically give each factor the weight in Federal pay setting which it has, on the average, in private pay setting in the national economy. The "reasonable comparability" principle comprehends all relevant factors because it includes the resolution of all of them as reflected in private enterprise rates. We have concluded that fixing Federal salary rates on the principle of reasonable comparability with private enterprise rates for similar positions is long overdue.

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Administration Position: Summary and Background

It is the Administration position that the adequacy of Federal salary rates at any particular time should be measured by applying two basic principles. The first principle is the one just mentioned, that Federal career compensation should be reasonably comparable with compensation in private enterprise for work of a similar level of difficulty and responsibility. The second principle is that within the Federal Government there should be equal pay for substantially equal work within and among all pay systems, with pay relationships among grades reasonably reflecting work levels. There appears to be rather general agreement on these basic principles. The problems before us have to do with the way they are defined and applied.

The white collar salary proposals which I will outline result from a series of studies, some of which are familiar to you. In 1957 a report of the Defense Advisory Committee on Professional and Technical Compensation (Cordiner Report) pointed out what were regarded as serious deficiencies in Federal pay rates and pay practices for professional and technical employees. Shortly thereafter the President's Committee on Scientists and Engineers (Young Committee) reported what amounted to general agreement with the Cordiner findings. Both the Cordiner and Young reports were confined to special groups of Federal employees, Cordiner to employees in the Department of Defense at GS-7 and higher, Young to scientists and engineers throughout the Government.

Following completion of these reports the Administration decided to ascertain whether any of the findings of these special reports applied

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generally to other Federal employees, particularly the one million non-professional, non-managerial employees in the Classification Act and in the Postal Field Service. An Interdepartmental Committee on Civilian Compensation was accordingly formed by the President in early 1957 and its steering committee, under the chairmanship of Mr. James T. O'Connell, Under Secretary of Labor, was directed to make a comprehensive study of all executive branch civilian compensation. The findings and recommendations of this study were summarized in a report dated November 1957. This staff report included a number of recommendations for far-reaching reforms in Federal pay. Until recently none of its recommendations had been either accepted or rejected by the Administration because it was believed preferable to take up the question of reform of the statutory white collar pay systems through joint review by the Congress and the executive branch.

With that purpose the President, on July 15, 1958, recommended the establishment of a joint pay commission to make such a joint review and to recommend action, and referred to the O'Connell Report, stating that copies would be made available to the Congress. Shortly thereafter a supply of copies of the Report was delivered for use of this Committee. Since the O'Connell Report was not widely disseminated and because of its significance, I suggest that it be made a part of the record of these hearings so it can be examined in connection with our presentation.

Administration representatives appeared in December 1958 before the Subcommittee on Manpower Utilization of this Committee, and renewed the suggestion for a joint review of Federal compensation by the Congress and

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the executive branch. In those statements the interrelationships among the major Federal pay systems were pointed out, showing, for example, that blue collar pay and white collar pay should be adjusted in better relationship with each other, and showing how relatively low pay levels for the Congress, the Judiciary and the top executive branch officers have adversely affected career white collar pay levels. It was further emphasized that, while the Government follows a clear pay principle of comparability to set blue collar pay, no such basic principle is followed in fixing pay under the statutory white collar systems. The division of authority between the Congress and the executive branch for pay administration was traced, emphasizing that this division required joint review and action, as the President had recommended, to make any effective progress.

In the absence of a joint commission, the executive branch has continued to seek improvements, concentrating on the Classification Act, the basic white collar pay system of general coverage. Thereafter, equitable relationships among the Classification Act, the Postal Field Service Act, the Executive Pay Act, and the smaller pay systems can be established. This work has resulted in the position which we are outlining today.

First Principle: "Reasonable Comparability"

Beginning in 1954, the President and other Administration spokesmen have repeatedly advocated the principle that Federal career salary rates should be generally comparable with private enterprise pay levels. A common conclusion of all the pay studies I have mentioned is that Federal pay should be reasonably comparable with pay in private enterprise for similar

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work. In your hearings this year several employee organization spokesmen have also supported this principle. We urge your Committee to accept it.

By following this principle, the employee and the taxpayer are assured that the Government is paying no more, and no less, than the "going rate" for employee services, just as the Government is expected to pay current market prices for any other services or goods for which it contracts. Moreover, the principle presents a measurable method for setting Federal pay.

Federal blue collar wage rates have for generations been fixed in accordance with local prevailing rates following the "reasonable comparability" principle. In using this principle for fixing Federal white collar salaries, comparison should be made with national rates rather than with local rates.

National rates are, for several reasons, more appropriate for white collar workers. In the case of professional and managerial workers especially, the labor market is national in scope, and pay rates must have national application. Also, local wage-setting operations for Federal clerical employees would, as a practical matter, involve so many geographic locations and be so complex as to be quite infeasible. Although Federal blue collar workers are concentrated in a relatively limited number of establishments, there are, even so, more than 200 areas in which blue collar wage surveys must be made and for which wage board actions must be taken. Federal white collar workers are much more widely dispersed. Postal Field Service workers and other Federal white collar workers are located almost literally in every city and town in the country. The number of geographic

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areas that would require local surveys and operations cannot be estimated, and these areas would be adjacent to each other in an endless series, making area definition virtually impossible. Nor does it help to compromise between local and national approaches in favor of some sort of regional approach, for almost any region thus defined would have both high pay and low pay areas within it. Thus, from the standpoints both of principle and practicality, it is necessary to adjust white collar pay rates in accordance with national pay levels.

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The Expanded Community Wage Survey

The difficulty in following the principle of reasonable comparability is that the Government now has had no valid nationally representative data with which to measure Federal salary rates. This may be surprising to those who know the large volume of data on wages and salaries now reported by the Government and by professional and trade associations. There are, for example, data on wage trends, but wage trends are a measure of change rather than a definition of level. There are data on industrial averages, but these, too, provide no basis for fixing comparable rates. There are data from surveys by professional and trade groups, but none of this is nationally representative and most of it is defined in terms which cannot be related to the grades in Federal pay systems.

The kind of pay data needed for comparability pay purposes is the kind which the Bureau of Labor Statistics has for years been collecting in its Community Wage Surveys. However, prior to this year, the Community Wage Surveys were made in only a relatively few metropolitan areas and the white collar occupations and levels included were largely clerical in nature. The Community Wage Surveys had not, in other words, been nationally representative nor had they covered a sufficient sample of Federal white collar work.

That situation is now being changed.

Needs for expansion of the Community Wage Surveys for economic analysis and for private industry and union purposes had been accumulating over the years. The Bureau of Labor Statistics had prepared a design for expansion which would produce data on white collar occupations, including

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professional and managerial occupations at all levels, and which would have a coverage representative of urban United States. Early in 1958, a team of executive branch pay specialists worked with the Bureau of Labor Statistics staff to review this survey design to assure that it would serve, in addition to its primary economic analysis purposes, to measure private enterprise rates for an adequate cross section of Federal white collar work. Last year the President requested and the Congress appropriated \$500,000 for the expansion of the surveys to serve all these purposes.

The complete details of the survey design are set forth in a document titled "Design for a Survey of White Collar Pay in Private Industry." This document summarizes the report and the design recommended by a work group composed of statisticians and pay specialists from the Bureau of Labor Statistics, the Bureau of the Budget, the Civil Service Commission, the Office of the Special Assistant to the President for Personnel Management, and a consultant from the Department of Defense. The report and recommendations have been accepted by the Administration, and now form the fact-finding basis for the Administration's projected proposals for pay action. The report states the policy assumptions on which the design is based; it outlines in complete detail the occupational, industry, and metropolitan area sampling, and it records the rationale for the samples; and it defines the scope of the pay data to be collected.

A copy of this survey design was delivered to the staff of this Committee upon its completion about a year ago. Copies have also been given to the various departments and agencies, and to employee organizations. A copy of this report is attached.

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Here are some aspects of this survey:

The survey will report the rates paid in industry and business for 77 white collar jobs. These jobs have been carefully selected to be representative of Federal white collar work from GS-1 and equivalent to GS-15 and equivalent. To be selected, the jobs had to be common and of frequent occurrence both in the Government and in private enterprise, and the work had to be essentially the same in both spheres. Accordingly, in addition to its regular job list included in the published Community Survey reports, the Bureau of Labor Statistics is pricing such jobs as engineers, chemists, accountants, personnel officers, lawyers (on the legal staff of a company, not those in practice for themselves), calculating machine operators, file clerks, and the like. We are, in other words, pricing only those Federal jobs which can be directly compared with jobs in private enterprise. We are not pricing investigators, claims examiners, social scientists, and other common Federal jobs which have no sufficient parallel in private enterprise.

These 77 jobs are being priced in 80 metropolitan areas, carefully selected by size, location, and industrial composition to be representative of urban United States. More than 70% of Federal civilian employees are employed in urban areas, and more than 75% of private enterprise white collar workers are in urban areas.

This summer the Bureau of Labor Statistics will complete its first annual survey under this expanded design, and in September they will publish a preliminary report showing national averages and medians and

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other pertinent private enterprise salary data. We will all then, for the first time, have the private industry facts to use to determine how Federal pay compares, grade by grade. The final report will be published in December 1960.

Second Principle: Adequate Internal Structure

The second principle which we advocate, namely, equal pay for equal work, with pay relationships among grades reasonably reflecting work levels, is as important as the first principle of reasonable comparability with pay in private enterprise. It is the principle on which internal equity depends, and which requires that salary structures provide adequate recognition of more difficult duties and higher responsibilities, and adequate incentive to assume them. It is the basis for position classification and job evaluation as practiced in the various Federal pay systems. However, Federal salary structures, particularly that under the Classification Act, no longer provide reasonable pay relationships among grades. The differentials between grades and the step increases within grade are not, in a number of instances, adequate recognition and do not constitute sufficient material incentive for higher responsibility and greater proficiency.

The executive branch recommendation for any needed white collar pay adjustment, based on the September Bureau of Labor Statistics report, will also incorporate proposals for reform of the pay structure itself and for more practical rules for the use of rates in that structure. The exact dimensions of structural reform are dependent in part on the pay levels

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found to be needed for comparability with private enterprise. Therefore, I cannot specify precise figures at this time; but I would like to mention the failings which need to be corrected and to outline the method of correction which we propose.

These remarks will be addressed specifically to the structure of the Classification Act, which is currently the most defective of all Federal pay structures; but the observations apply also, in varying degree, to the other Federal white collar pay systems.

A pay structure is an ascending series of pay rates designed as equitable compensation for different levels of work and for different degrees of proficiency and seniority in the work. Just as the work itself is classified in regularized gradations of difficulty and responsibility, so the pay rates should have regularized interrelationships. The differences between pay rates for different work levels should serve both as proper recognition and as material incentives, and the differences must accordingly be sufficient to be effective as motivation.

The Classification Act salary structure does not fulfill these functions because it becomes too irregular. The differentials between some grades, and the within-grade step increases in most grades, are too small to provide material incentive. The GS-18 ceiling rate is so low that it has brought undesirable depression in the rates for several lower grades. A few examples of the irregularities will illustrate.

When a young professional employee is promoted from the entry rate of GS-5 to the entry rate of GS-7 it adds 23% to his salary, but when an employee moves from the entry rate of GS-16 to the entry rate of GS-17 the difference in salary is only eight percent.

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Even among the clerical grades where much lesser work level differences are recognized, the differentials range from 11% which may be too much, to seven percent which may not be enough.

While differentials between the lower professional and managerial grades of GS-5, 7, 9, 11, 12, and 13 average nearly 20%, the differentials from GS-13 upward average only 12%, thus the small difference in the pay check which accompanies a promotion to the next higher grade is quite incongruous, as, for instance, in promotion from the maximum step of GS-13 to a GS-14 job, where the pay check is increased from \$338.03 to \$345.29, or only \$7.26.

Finally, the low GS-18 ceiling permits neither the size of differentials needed nor the level of rates needed to match the responsibility at the upper grades. Increases in differentials are needed most among grades GS-2 through GS-5, and from GS-13 through GS-18.

In brief, differentials between grades from GS-1 through GS-10 should follow a common pattern. There should also be a coherent pattern for differentials between the professional and managerial grades of GS-5, 7, 9, 11, 12 and so on through GS-18. The exact shape of these patterns can be determined after the Bureau of Labor Statistics has reported the results of its survey of white collar pay in private enterprise.

Second, within-grade step provisions vary widely. Some grades have 10 step rates, some nine, some five, and one grade has eight rates while another has one rate. Some steps amount to 3.7% of the entry rate, and some are as small as 1.5%. The length of service required for a step

increase also varies among the grades. Many of the step increases are too small to be felt as incentives. The increase in the pay check of a GS-17 official when he gets a step increase is \$6.65.

It is plain that there should be a regularization of within-grade ranges and step increases, providing an adequate total range. It should also regularize the number of steps, the size of steps, and the time and other conditions for advancement to higher steps. This will undoubtedly result in larger step increases for some grades, for example for GS-3 and 4, and for GS-8 and the higher grades.

Not only is the Classification Act structure itself defective, but the use of this rate structure by departments and agencies is governed by statutory rules which are too rigid to permit sensible management action, and this rigidity causes considerable damage. The rules provide that, with rare exceptions, new appointments must be made only at the entry step of the grade. Qualified, experienced candidates, already earning more, are discouraged. Progression from one step rate to the next higher step rate of the grade is governed by the statutory rule which provides for such progression only upon completion of the statutory time in grade. Increases for extra competence are not allowed, nor may a supervisor's in-grade rate be increased above the rate paid his subordinate under another pay system. When an employee is promoted to a higher grade, the rules require that the promotion be either to the entry step of the new grade or to the lowest step which will provide a single step salary increase. One-step increases are not adequate recognition for assuming heavier responsibility.